



REPORT FOR THE QUARTER ENDING 31 DECEMBER 2006

COMPANY HIGHLIGHTS

CAPE LAMBERT IRON ORE PROJECT

Drilling continued at Cape Lambert to 15 December 2006 toward preparation of a bankable feasibility study.

DTR TEST WORK

DTR results indicate that beneficiation can produce a commercial Magnetite concentrate.

METALLURGICAL FLOW SHEET DEVELOPMENT

The Company has retained internationally renowned, Canadian based, consulting engineering company Met-Chem Canada Inc. to provide metallurgical design services.

PORT SITE SELECTION

The Company has appointed URS Australia Pty Ltd to identify and assess potential port sites for the Project.

ACQUISITION OF ADJACENT TENEMENTS

On 15 January 2007, the Company announced it had signed an agreement with Norwest Sand and Gravel Pty Ltd for an option to acquire tenements E47/1233, E47/1248 and E47/1271. The tenements are strategically located adjacent to, and contiguous with the Cape Lambert Project tenement (EL47/1462).

CORPORATE

On 17 October 2006, the Company announced Xinxing Iron Pipes Co., Ltd a Chinese corporation signed an MOU confirming its intention to consider a significant equity stake in Cape Lambert.

On 11 October 2006, the Company announced a farm-out agreement with regard to the Sacu Project in Romania.



QUARTERLY REPORT FOR THE PERIOD ENDING 31 DECEMBER 2006

CAPE LAMBERT IRON ORE PROJECT (the "Project")

Work continued during the quarter toward the preparation of a bankable feasibility study, and commenced in respect to Project environmental permits. The Company's objective is to define sufficient reserves to produce 10-15 million tonne per annum of magnetite concentrate over a 20 year mine life.

RESOURCE DEFINITION DRILLING

Resource definition drilling at the Project commenced in early July within the Central Target Area (refer Figure 1). Up to and including 15 December 2006, when drilling was stopped for the Christmas/New Year period, the Company had completed 69 Reverse Circulation ("RC") drill holes for a total advance of 18,052 metres. All holes have been collared vertically. Significant drill results are discussed in the following Davis Tube Recovery ("DTR") section and are summarised in Table 1.

Downhole geophysics was performed on all holes for magnetic susceptibility, natural gamma response and density. All holes were surveyed using a gyro downhole tool with hole collars being located using differential GPS.

The Company is scheduling the recommencement of RC drilling later in the March quarter, once the RC rig is available and all outstanding DTR results have been received and interpreted. Priority drill targets will be immediately to the north of the Central Target Area and along strike and down-dip of drill holes MA209 and MA210, which returned thick DTR intercepts of 164 and 202 metres respectively with high Fe concentrate grades and low deleterious elements (refer ASX releases dated 12 and 19 December 2006). The mineralisation in this area is open along strike and down-dip.

Work also commenced during the quarter on consolidating Robe's drilling data along with new drill data into a single digital database in anticipation of preparing a resource concentrate model for preliminary open pit mining studies. This necessitated the installation of a new server and appropriate database software.

DTR Test Work

A total of 1,709 samples from RC drilling have been submitted for DTR test work. At the end of the quarter, DTR results for 1,078 samples had been received (63% of samples submitted). All outstanding DTR results are expected to have been received by the end of February.

The DTR test subjects samples (ground to nominally 100% passing 45 micrometres) to a magnetic field to determine the weight recovery to magnetic concentrate and concentrate quality. The resultant magnetic concentrate is analysed for Fe, silica (SiO₂), alumina (Al₂O₃) etc. The DTR test provides a good indication of the samples suitability for magnetic concentration and the quality of the concentrate.

The DTR test work is conducted on 4 metre composite samples from the RC drilling.

Significant DTR intercepts are set out in Table 1. The DTR intercepts indicate that beneficiation of magnetite dominant Iron (Fe) mineralisation at Cape Lambert can be achieved to produce an acceptable commercial Fe concentrate. DTR length weighted averages from Table 1 for key concentrate characteristics are as follows;

- Weight recovery: 32.9%
- Fe grade: 65.8%
- Silica (SiO₂): 6.7%
- Aluminium (Al₂O₃): 0.45%
- Phosphorous (P): <0.01%

METALLURGICAL FLOW SHEET DEVELOPMENT

The Company has retained Met-Chem Canada Inc. to provide metallurgical design services. Met-Chem is an internationally renowned, Canadian based, consulting engineering company providing services in the mining, metallurgical and mineral processing sectors. It is wholly owned by, and provide services to, US Steel Corporation and has considerable expertise in magnetite processing and pellitising as they relate to iron ore and steel production.

Met-Chem's scope includes a detailed review of all recent and historical metallurgical test work, providing recommendations on additional metallurgical test work and preparing process flowsheets for engineering design.

The Company has held discussions with Maelgwyn Mineral Services in respect of its pneumatic flotation technology. This technology has been successfully used in central Chile to reduce silica levels in magnetite concentrates by reverse flotation. A bulk, high-silica magnetite concentrate is currently been prepared for testing by Maelgwyn.

The results of 42 RC chip samples submitted for mineralogical analysis have confirmed the presence of non-magnetite minerals in high-grade Fe intercepts that did not respond well to DTR testing. Where this material occurs with magnetite dominant Iron (Fe) mineralisation, alternative methods of recovery and beneficiation are planned to be investigated.

PORT SITE SELECTION

The Company has appointed URS Australia Pty Ltd ("URS") to identify and assess potential port sites for the Project. The team undertaking this exercise is working closely with environmental consultants, local stakeholders and the Cape Lambert Marketing group to identify the most appropriate site with respect to a range of shipping, environmental, social and economic criteria. It is anticipated that one or two preferred sites will be identified and these sites will subsequently be subject to a more detailed assessment for final site selection.

ENVIRONMENTAL APPROVALS

The Company has also retained URS to prepare the environmental impact assessment(s) required for the Western Australian Minister of the Environment to approve the development of the Cape Lambert Iron Ore Project. URS has extensive experience in the preparation of environmental impact assessments for large resource projects, with specific expertise in the Pilbara.

In order to identify the issues to be addressed in the Environmental Scoping Document, the first stage in seeking environmental approval of the Project, consultation with potential stakeholders in the Project has commenced and will continue throughout the coming months. It is anticipated that baseline flora and fauna studies will commence later in the first quarter of 2007; the actual timing to be dictated by rainfall events in the Pilbara. The aim of these activities is to establish a detailed scope of work, budget and schedule for the grant of the necessary environmental approvals.

ACQUISITION OF ADJACENT TENEMENTS

On 15 January 2007, the Company announced it had signed an agreement with Norwest Sand and Gravel Pty Ltd for an option to acquire tenements E47/1233, E47/1248 and E47/1271. The tenements are strategically located adjacent to, and contiguous with the Cape Lambert Project tenement (EL47/1462). The mineralisation identified in drill holes MA210 and MA209 is open down-dip to the south-east and potentially crosses into tenement E47/1248.

During the option period, the Company intends to drill test for extensions of mineralisation into the tenements.

CORPORATE

MOU FOR EQUITY STAKE AS PART OF OFF-TAKE AGREEMENT

On 17 October 2006, the Company announced Xinxing Iron Pipes Co., Ltd signed an MOU confirming its intention to take a significant equity stake of up to 57 million shares or 19.9% of the issued capital, whichever is the higher, in Cape Lambert. Xinxing is a Szechwen Stock Exchange listed company, one of the largest Chinese steel pipe manufactures and the worlds second largest with an annual turnover in excess of US\$1.3 billion.

The acquisition of equity will grant Xinxing "first right of refusal" to negotiate an off-take agreement for magnetite concentrate from the Project. Discussions in commercial confidence are ongoing.

ROMANIAN GOLD/COPPER PROJECT ('SACU') FARM-OUT

On 11 October 2006, the Company announced it had signed a farm-out agreement with Spalding Ltd ("Spalding") for the Company's Sacu gold/copper Project, located in the "Golden Quadrilateral" area of Romania.

Under the terms of the agreement, Spalding can earn 80% of this highly prospective gold/copper project in a known mineralisation province through the expenditure of US\$2million over a period of two (2) years.

Spalding will pay Cape Lambert a US\$10,000 option fee immediately and conduct due diligence on the project for a period of 90 days.

At the completion of the due diligence period, Spalding must pay Cape Lambert a further US\$10,000. The remainder of the balance will be met through a drilling programme, which will commence in November 2006.

Tony Sage
Executive Director

About Cape Lambert

The Cape Lambert iron ore project is located on Exploration Licence 47/1462. The license has an area of 223 square kilometres and is located in the northern, coastal Pilbara region of Western Australia between the towns of Karratha, Roebourne and Wickham. The property is crossed by the North West Coastal Highway, two (2) gas pipelines, power transmission lines, a railway and is approximately 10km from the coast.

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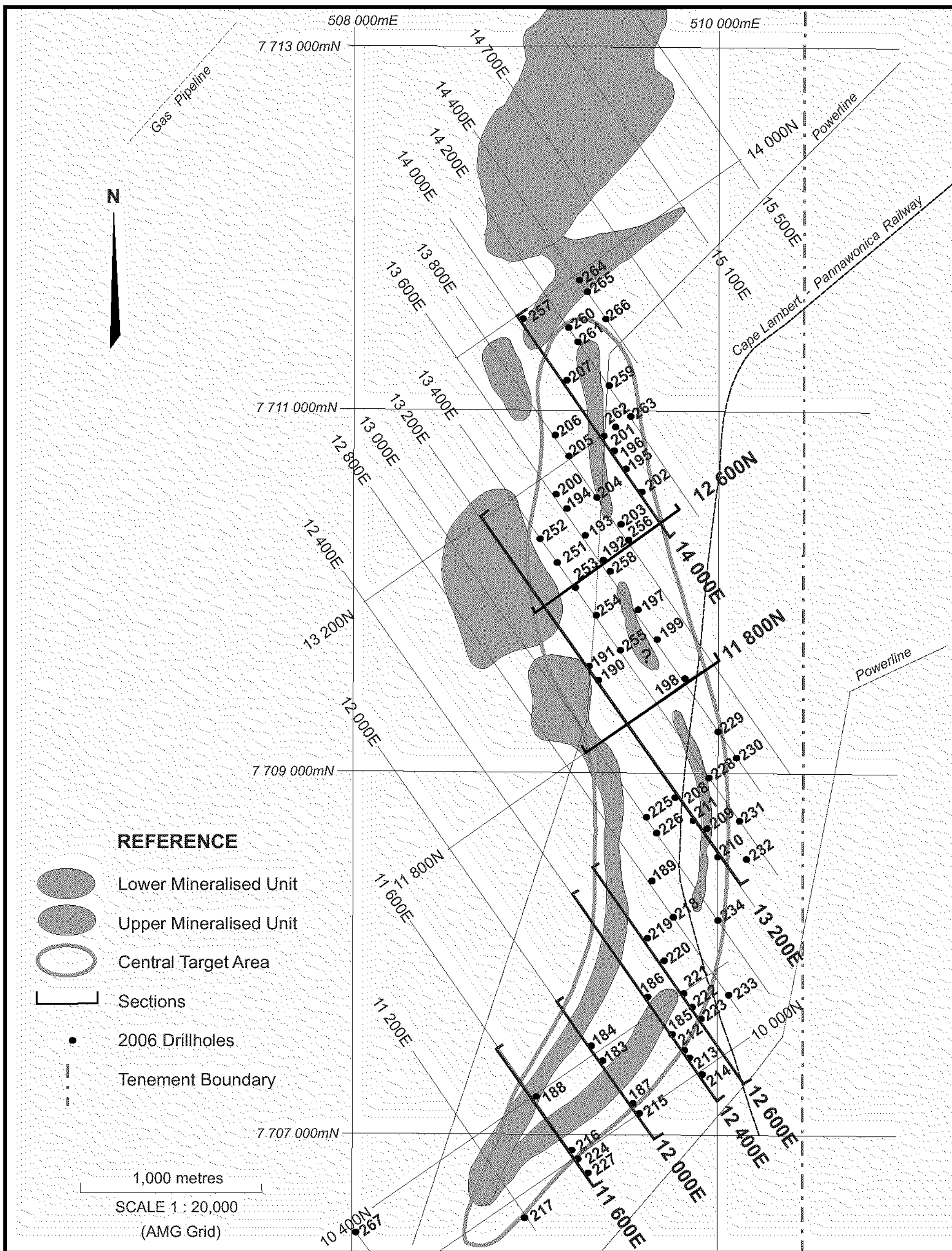


Table 1: Summary Davis Tube Recovery Intercepts

Hole_ID	MGA - 94		Sample (m)			DTR results				
	Easting	Northing	From	To	Interval	Recoverable Mag Wt (%)	Fe grade (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)
MA184	509456	7707555	80	104	24	42.6	63.4	8.7	0.28	<0.01
MA185	509880	7707690	84	116	32	39.1	63.8	8.8	0.52	<0.01
MA187	509608	7707333	108	128	20	23.1	65.4	7.0	0.63	<0.01
			136	164	28	34.4	63.5	9.0	0.41	<0.01
MA188	509126	7707349	64	96	32	26.6	64.9	6.9	1.03	<0.01
MA189	509761	7708548	96	140	44	41.0	64.4	8.2	0.49	<0.01
MA190	509471	7709653	4	88	84	30.0	65.8	6.0	0.29	<0.01
MA191	509398	7709757	64	80	16	37.2	66.0	5.8	0.47	<0.01
MA192	509506	7710300	256	288	32	32.4	62.4	8.9	0.78	<0.01
MA193	509383	7710473	180	244	64	31.9	62.5	8.8	0.61	<0.01
MA194	509311	7710602	168	208	40	34.2	65.2	6.7	0.36	<0.01
MA195	509633	7710818	88	120	32	26.6	67.9	4.5	0.30	<0.01
			196	240	44	21.8	63.8	8.4	0.39	0.01
MA196	509554	7710930	28	56	28	26.6	66.4	5.2	0.47	0.01
MA197	509717	7710054	260	276	16	42.5	63.0	9.0	0.32	0.01
MA198	509945	7709640	176	220	44	32.9	63.4	8.3	0.55	0.01
MA199	509851	7709812	204	244	40	35.8	63.2	8.8	0.70	0.01
			344	364	20	30.1	62.9	7.7	0.54	0.01
MA201	509489	7711052	184	228	44	22.8	64.3	7.0	0.43	<0.01
MA202	509723	7710689	156	200	44	31.1	66.5	5.5	0.37	0.01
			268	316	48	32.5	64.0	7.7	0.43	0.01
MA203	509409	7710428	244	284	40	33.5	62.2	9.0	0.50	<0.01
MA207	509277	7711322	100	156	56	23.3	63.0	8.5	0.69	<0.01
MA208	509905	7708993	80	132	52	36.7	64.9	7.3	0.52	0.01
MA209	510070	7708820	72	236	164	33.8	67.4	5.0	0.24	<0.01
MA210	510124	7708719	100	302	202	35.3	66.9	5.4	0.35	<0.01
MA211	510004	7708904	80	196	116	33.1	65.3	7.3	0.47	<0.01

Hole_ID	MGA - 94		Sample (m)			DTR results				
	Easting	Northing	From	To	Interval	Recoverable Mag Wt (%)	Fe grade (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)
MA213	509907	7707664	120	168	48	36.3	63.9	7.9	0.91	0.01
MA214	509975	7707540	228	340	112	39.4	65.7	6.3	0.41	<0.01
MA215	509690	7707250	138	194	56	31.5	66.3	5.4	0.54	<0.01
MA216	509320	7707070	40	58	18	29.6	65.7	4.9	0.23	<0.01
MA217	509076	7706712	132	148	16	22.9	67.1	2.3	0.34	<0.01
MA218	509850	7708375	132	152	20	40.3	64.7	8.5	0.41	<0.01
MA219	509720	7708250	36	56	20	38.6	65.3	7.2	0.38	<0.01
MA224	509362	7707035	82	120	38	37.4	63.4	9.0	0.43	<0.01
MA225	509760	7708882	40	80	40	35.4	65.5	6.9	0.41	<0.01
MA226	509823	7708799	88	104	16	41.5	64.9	7.3	0.36	<0.01
MA228	510090	7709120	94	150	56	34.7	66.3	6.1	0.4	<0.01
MA231	510260	7708870	165	236	71	34.4	64.9	7.1	0.5	<0.01
MA232	510300	7708635	155	216	61	33.8	64.3	7.6	0.48	<0.01
MA255	509610	7709770	104	137	33	35.5	68.2	4.2	0.23	<0.01
MA262	509570	7711080	209	231	22	25.2	65.5	6.2	0.34	<0.01
MA263	509645	7711125	200	245	45	31.9	67.5	4.3	0.39	<0.01
MA265	509485	7711740	76	144	68	26.4	68.2	3.6	0.39	<0.01
Length weighted average						32.9	65.8	6.7	0.45	<0.01

- Notes:
- All holes are collared vertically.
 - Sample interval comprises 4m composites.
 - Each 4m composite is individually tested by DTR, with all composite results average for the interval.
 - Minimum DTR interval of 16 metres.
 - DTR interval is apparent not true.
 - DTR samples prepared to nominally 100% passing 45 micrometres.
 - DTR testing performed by AMDEL Limited (Mineral Services Laboratory) and Independent Metallurgical Laboratories Pty Ltd with chemical analysis by X-ray Fluorescence Spectrometry (XRF).

The DTR information in this report is based on information compiled by GV Ariti who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Ariti has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Ariti consents to the inclusion in this report of the matters based on his information in the form and the context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

CAPE LAMBERT IRON ORE LTD

ABN

71 095 047 920

Quarter ended ("current quarter")

31 December 2006

Consolidated statement of cash flows

	Current quarter SA'000	Year to date (6 months) SA'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(1,806)	(2,999)
(b) development		
(c) production		
(d) administration	(625)	(1,406)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	182	317
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other	-	313
Net Operating Cash Flows	(2,249)	(3,775)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects		
(b) equity investments	(372)	(475)
(c) other fixed assets	(83)	(83)
1.9 Proceeds from sale of:		
(a) prospects		
(b) equity investments	150	150
(c) other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other – refund of asset purchase	-	1
Net investing cash flows	(305)	(407)
1.13 Total operating and investing cash flows (carried forward)	(2,554)	(4,182)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(2,554)	(4,182)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other - repayment of issue proceeds - costs of share issues		
Net financing cash flows			
Net increase (decrease) in cash held		(2,554)	(4,182)
1.20	Cash at beginning of quarter/year to date	11,082	12,710
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	8,528	8,528

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	148
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Executive and non executive directors salaries

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	1,000
4.2	Development	-
Total		1,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
5.1	Cash on hand and at bank	461	412
5.2	Deposits at call	8,067	10,670
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		8,528	11,082

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	Nil		
6.2	Interests in mining tenements acquired or increased	Nil		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	249,324,530	249,324,530		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 *Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	550,000 500,000 136,511,805 50,000,000 40,000,000 16,400,000 3,300,000 3,300,000	- - 136,511,805 - - - - -	<i>Exercise price</i> 42.7 cents 36.7 cents 27.7 cents 32.7 cents 37.7 cents 40.0 cents 90.0 cents \$1.40	<i>Expiry date</i> 22 October 2008 9 February 2009 31 October 2008 31 October 2009 31 October 2010 31 December 2007 30 June 2008 30 June 2009
7.8 Issued during quarter	16,400,000 3,300,000 3,300,000		40.0 cents 90.0 cents \$1.40	31 December 2007 30 June 2008 30 June 2009
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 31 January 2007...
(Director/Company secretary)

Print name: Timothy Turner.....

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.